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Order 2001-9-10

Served: September 20, 2001



UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.

Issued by the Department of Transportation  
on the 17th day of September, 2001

INTRA-ALASKA BUSH AND  
MAINLINE

SERVICE MAIL RATES

Dockets OST-95-405 - 102  
and  
OST-95-429 - 154

**ORDER TO SHOW CAUSE**

**Summary**

By this order the Department proposes to revise reporting requirements on an experimental basis for certificated bush carriers transporting mail within the state of Alaska in order to consider adopting a new update methodology after we review the more detailed data the carriers would submit with this proposed revised format. During the evaluation of the effectiveness of the data reports, if adopted, we would maintain the rate established by Order 2001-3-11 as the final rate, until any new methodology can be adopted.

**Background**

On January 25, 2001, the Department served a notice requesting comments on revised reporting and other potential mail rate adjustments for intra-Alaska bush and mainline mail service.<sup>1</sup> The notice was comprised of 10 questions. We received comments from the Postal Service, the State of Alaska, Tanana Air Service, Village Aviation, Hageland, Arctic Transportation Services (ATS), Lynden Air Cargo, and the Consolidated Carriers.<sup>2</sup>

We will respond here to the issues of data reporting. Other matters raised in the notice and comments are under study.

<sup>1</sup> That notice was prompted, in part, by the Postal Service's objection to Order 2000-1-10 in Docket 405.

<sup>2</sup> The Consolidated Carriers consist of Alaska Seaplane, Arctic Circle, Arctic Transportation, Baker, Bellair, Cape Smythe, L.A.B. Flying, Olson, Servant Air, Tanana, Taquan, Village Aviation, Wright, and Yute, as identified in Order 2000-5-30.

## Data Questions and Comments

### 1. Should the carriers, bush and mainline, fully convert to the T-100 reporting system, as detailed on reporting diskettes supplied to the carriers and the Postal Service?

Bush Carriers: Tanana, Village, Hageland, and Arctic Transportation favored conversion to the T-100 reporting, especially with appropriate Department support and a transition period, if it would produce better data for setting mail rates. Hageland indicated that more training would be required and estimated a minimum of six months would be needed to change to the T-100. Lynden Air Cargo indicated that they had already converted to this system effective January 1, 2001. The state of Alaska favored the use of the T-100, and endorsed uniform reporting by all carriers of the Department's Form 41 system of financial reporting.<sup>3</sup> The Postal Service supports conversion to the T-100 reporting as soon as possible, arguing that it did not appear overly burdensome to the carriers. It hoped that using the diskettes<sup>4</sup> would make the data more reliable and that the T-100's greater detail would lead to greater transparency of carrier operations and of the market for all parties involved.

The Consolidated (bush) Carriers opposed the revised reporting, arguing that the Department must limit its gathering of data to only those items required by the Department to perform its legally mandated functions. Accordingly, they argue that the Postal Service's and State of Alaska's desire for greater transparency of carrier operations in Alaska is not sufficient reason to require additional reporting.

We have tentatively decided to require the reporting of the T-100 report by the bush carriers, but not mainline carriers, for an evaluation of the need to update our rate methodology. The diskettes have been designed by our Bureau of Transportation Statistics to be less burdensome to report than the Form 298-C reports currently required of the bush carriers. For the bush carriers the diskettes are less susceptible to misreporting because the diskette allows a software program to calculate and prepare the summaries, once the carriers input the raw data. This will prove especially helpful in Alaska where, in the face of staff turnover, many of the carriers face recurrent training problems.

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<sup>3</sup> Currently mainline carriers report data on the Department's Form 41. Bush carriers report on the less detailed Form 298-C. The mainline carriers publicly report quarterly balance sheets and income statements. The small carriers report no balance sheet information and only a confidential four-line income statement consisting of operating revenue, operating expense, scheduled passenger revenue, and net income.

<sup>4</sup> At a meeting in Anchorage in May of 2000 the Bureau of Transportation Statistics distributed diskettes encapsulating the T-100 reports for the carriers' review.

The Consolidated Carriers argue that the Department must specify why the additional information is required by the Department to meet its mandated tasks. In response, we point out that the current update methodology for the bush carriers, which was designed with the reporting limitations of Form 298-C in mind, did not take into account possible changes over time in aircraft size or speed. Rather, it was intended merely to extend the "shelf life" of the rates set in the full-scale base rate investigation. The more time that elapses since the base rate investigation, the more likely that significant interim adjustments may need to be made to adjust for factors unmeasured by the current update methodology.

It is becoming increasingly difficult to set accurate mail rates for the bush carriers with the current reporting system. Currently we update the bush linehaul element on the basis of block hours, which do not account for changes in size and speed of aircraft used to move the mail. No bush carriers report system RTMs or ATMs, which can account for those factors. Furthermore, in its reply to the notice, on Appendix A, Page 1 of 6, the Postal Service calculated that from 1986 to 1999 an index of the average capacity of bush aircraft increased from 3.47 to 4.42 per block hour. This calculation was based on capacity as measured by Empty Weight according to *Jane's All the World's Aircraft*. Some carriers have objected that Jane's data are unreliable.<sup>5</sup> It appears to us that, but for a few minor exceptions, the trend reported by Jane's is reliable and substantiates that over time the general size of bush aircraft has increased. However, the increasing size of aircraft over time is not the only factor.

Larger aircraft in general are more expensive to operate per block hour than smaller aircraft. However, if the average aircraft size has increased over time, as the indices mentioned above show, then continuing to update the linehaul rate by the unit cost per block hour as we have since 1990 would overstate the rate by ignoring the increased size of aircraft. As an example, if the average cost per hour doubled over time, under our current methodology the rate would double. However, if during that same time period the average aircraft payload also doubled, the actual cost of transporting the mail would have remained unchanged. Similar logic would apply to changes in aircraft speed. On the other hand, if the average load factor has decreased over time, then updating the linehaul rate by the unit cost per block hour as we have since 1990 would ignore this factor and thereby understate the rate. Likewise, if a greater portion of mail is now moving on more expensive aircraft (the bush rate, unlike the mainline rate, ignores which aircraft types the mail is moving on) than when the base rate was established, then the current rate is understated. We need the data supplied by

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<sup>5</sup> The carriers point out technical difficulties in our relying on Jane's index. For example actual available capacity of the aircraft may be substantially less than what a single empty weight would indicate if longer haul operations were considered.

the T-100 reports to determine the increasing size of aircraft over time, as well as aircraft speed and load factor.

Mainline Carriers: We note that this key issue is not pertinent for the mainline carriers, because RTMs and ATMs, the presumed indices to be used to correct for changes in average aircraft size, are already reported by mainline carriers. We update the mainline rate on an ATM basis, and parties are able to calculate what they believe the rate should be on an RTM basis, which would account for changes in aircraft speed and load factor, using readily available data. We have also recently adjusted the mainline rate to account for the changing mix of aircraft types that move the mail. Were the bush carriers to submit the T-100 report, we would be able to update the rate for the bush carriers more accurately and on a basis much closer to how we currently update the rate for the mainline carriers.

2. Assuming the T-100 reporting is begun, how should the new update indices be phased in?

Tanana Air Service indicates it would not be prepared to provide its initial T-100 report for several months after it was adopted. Tanana and Village also suggest that a two-quarter parallel reporting period be established to validate the results of the new data. Similarly, Arctic Transportation Services suggests a complete changeover to using the new indices as soon as the new system reporting is found to be reliable.

The Postal Service suggests the change be made as soon as data quality and consistency have been ensured under the new system. As to which methodology should be used, once the new data are available, the Postal Service urges the Department to meet with the parties to arrive at a consensus. The Postal Service reiterates that it wants no drastic changes in rates from one year to the next regardless of the results of the new, more detailed data and accurate update methodology. In other words, if an ATM or RTM calculation were to result in a substantially lower mail rate, the Postal Service would not oppose phasing it in over some period of time.

BTS has designed the diskettes so that the transition should not be conceptually difficult. However, Tanana has made a valid point--that individual carriers should continue the old reporting system until they and we are comfortable with the accuracy and reliability of the new system and so we can compare the two for elements common to each, such as system block hours and departures by aircraft type. In the transition, unexpected problems may occur. Our Bureau of Transportation Statistics will be available for assistance. All of the parties have had access to the diskettes for over a year. In addition, Lynden Air Cargo informally reports that the conversion to the T-100 diskettes was easy.

Accordingly, we propose that the bush carriers, if the requirement is adopted, begin using the T-100 diskettes no later than 30 days after a final order has been issued. We will be able to compare T-100 results with the current Form 298-C for indices of block hours and departures by aircraft type, which are the two data elements exactly common to both reporting systems.

Because there is some significant evidence on the record that continuing to apply the current update methodology might result in an unacceptable deviation of rates above costs, we believe that it is the prudent course for us to maintain the current rates. We will carefully consider any comments addressing this issue before issuing a final decision. Of course, if evidence is presented during the proposed evaluation period of the T-100 data that contradicts our premise, we would consider updating the rates as appropriate. We will also endeavor to complete our evaluation of the new information as quickly as possible in order to minimize the unavoidable uncertainty as to the prospective rate when all matters are resolved.

It was discussed in the industry meetings whether it would be easier to report the T-100 report quarterly or monthly. For now, we propose to require the carriers to submit the diskettes on a monthly basis, because BTS and the carriers will be able to more quickly correct potential errors if reports are submitted monthly. Likewise, with monthly reporting, carriers would have to correct only one month's worth of work, not three months'. After the carriers become proficient and comfortable with the diskettes, we would examine the issue of monthly or quarterly filings if the reports are continued. For now, we will tentatively require monthly reporting, but the carriers may comment on this issue at the end of our evaluation.

3. How burdensome would it be for bush and mainline carriers to submit past period data on the T-100 to speed up the review process?

This question is related to the preceding one. If the carriers were able to submit the T-100 on a past-period basis, the evaluation would be expedited, because we would not then have to wait until the passage of time allowed us to compile a full year of reliable data. Some carriers indicated that submitting past-period data would not be a problem while others reserved judgment until they had actually implemented the use of the diskettes.

The Consolidated Carriers believe that it would be impossible to submit past-period data, especially because a number of the carriers that the Department used to calculate the rate are defunct. Of those carriers in the pool for the current period, *i.e.*, year ended September 30, 2000, we are not aware of any carriers that

have ceased service. Lynden indicates that it is reviewing how difficult it would be to submit past-period data.

The Postal Service is concerned that not having past-period data will make continued use of our current ten-year moving average impossible.<sup>6</sup> The Department shares the Postal Service's concern. We would like to continue the use of a long-term moving average because of its stability. We note that because of recent major changes in the mainline update methodology, we now determine the long-term trend for the mainline carriers on a different basis than we do their costs for the current year, and will continue to do so until we have the new long-term data over a sufficiently extended period of time.<sup>7</sup> Whatever method is used for calculating it, determining the long-term trend is not as critical as having the accurate and sufficiently detailed cost data for the most current period. We note however, that in order to be useful, the past period data for all of the carriers historically included in the pool would be needed, otherwise there would not be a representative sample. Since this information does not appear to be available, we have tentatively decided to not require that carriers report past-period data in the T-100 format.

4. Should the T-100 data be reported on a continuing basis, or *ad hoc*?

The state of Alaska, Tanana, Village, Lynden, and ATS stated that if we were going to switch to the T-100, we should make the change on a continuing basis. The Consolidated Carriers, consistent with their general opposition to T-100 reporting, oppose the continued reporting of the T-100. The Postal Service notes that continued reporting,

"Would provide a basis for accurate rate updates in the future and would ensure that errors be readily discovered and corrected. A one-time requirement or requests on an *ad hoc* basis would be substantially more burdensome in the long-term and would not provide the benefit of better yearly rate updates."

The corollary to having final rates in place is that the data must be readily available so that we can quickly establish accurate new rates when a review is called for. Moreover, we update rates each year, and it is critical that each year

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<sup>6</sup> After a number of meetings among the parties, in 1997 the Department ended our use of the year-over-year changes in unit costs to project forecast unit costs because that caused the rate to be unnecessarily volatile. Using a ten-year average substantially reduced the volatility of the rates. The issue here is not the volatility of the rates, but rather their accuracy.

<sup>7</sup> Current year costs are determined for Alaska, NAC, ACE, and LAC, on a weighted mail basis. The long-term trend is determined on the costs of Alaska and NAC only, and without weighting by amount of mail carried.

the update be accurate. However, we will continue to review this issue during the evaluation period if the report is adopted.

5. Which level of detailed review of the mail rates should be used?

Tanana and the Consolidated Carriers favor continued use of the current system. Village Aviation, the Postal Service, and ATS, prefer that we change to using new indices such as ATMs and tons enplaned. Lynden prefers the use of RTMs. The Postal Service discusses at length its preference for ATMs over RTMs, and also over RTMs weighted by amount of mail carried by each aircraft type. None of the parties favored a full base-rate investigation.

The Postal Service says that we should fully discuss with the parties these issues before we adopt a new methodology. We agree. As we indicated before, we tentatively believe additional data are needed, and it would be premature to decide what should be done before we have sufficient data before us. Having sufficient data, which we are now pursuing, is the first and a necessary step in adjusting the update methodology.

6. Since the Department cannot immediately implement use of ATMs, RTMs or Tons Enplaned for the bush carriers, should we establish an interim solution, such as requiring carriers to file their weight of aircraft and updating the current system based on weighted block hours?

No parties support an interim methodological change and thus we tentatively decide not to propose one at this time.

7. Should we require more detailed reporting of financial information: costs, revenues, and assets and liabilities? (The T-100 information is strictly traffic information, not financial.)

The Postal Service says that to gain a better understanding of the operations of carriers in Alaska, the Department should require more detailed reporting of all these financial elements. With more detailed reporting the parties could determine revenue for passengers, mail, and freight. Balance Sheet and Income Statements could be used for determining rate of return calculations. The State of Alaska says that carriers' reports should be uniform and the carriers should all report Form 41 data, the Department's financial reporting system for large carriers. Village sees no reason for the Department to measure a carrier's return on investment. ATS also opposes reporting balance sheet information as unnecessary. The Consolidated Carriers argue there is no need for such data. When we last conducted a bush base-rate review, we required the carriers to submit income statements, balance sheets, and aircraft inventories. However, we

have tentatively decided to not require the carriers to report Balance Sheets, Income Statements, and Aircraft Inventories, because it is not clear at this time that they will be necessary for our evaluation of the rate methodology.

With respect to certain cost elements, we tentatively propose to require the bush carriers to submit a revised Schedule F-2 which will provide additional information, regarding aircraft hull, liability, and third party liability insurance. These items previously were not broken out separately but are significant expense items. Moreover, hull insurance and third party liability insurance should be included,<sup>8</sup> while liability insurance should be excluded from the calculation of mail rates. Without these items being separately listed, it is not clear whether we are including or excluding them, as appropriate from the calculation of the mail rate.

Specifically, there will be separate line items identifying hull, liability, and third party liability insurance expenses. In the past, these expense items were to be reported on Line 5, *Other*, and Line 12, *Traffic Related Expense*. It was our experience that these two expense items were frequently misreported, especially when there was a change in carrier reporting personnel. By separately identifying these significant expense items, we should eliminate this error.

Likewise, under this revised organization, several small miscellaneous expense items would be reassigned. Pilot simulator and pilot training expense would be assigned to the line item for pilots, as would chief pilot, pilot benefits and pension, and pilot personnel expense. Indirect expense would be largely left alone, except for the transfer to direct expenses of aircraft liability and third party aircraft liability insurance, simulator expense, pilot training, and miscellaneous pilot expense.

Finally, we would require the carriers to separately break out transport related expenses. Such expenses are a part of operating expense but properly not part of the mail rates. We will provide the air carriers with a separate line item to report transport related expenses, which are a part of the air carriers' operating expenses, but are not an expense item used in computing the mail rates. The inclusion of the *Transport Related Expense* line on the Schedule F-2 will create a useful tie-in between *Total Operating Expense* on the Schedule F-2 and Line 2, *Total Operating Expenses*, on Schedule F-1. By separately reporting transport related expenses on the F-2, the Postal Service can be better assured that those expenses are excluded from the calculation of the mail rate. By reporting in this revised fashion, the data will be more reliable and easier for the carriers to understand

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<sup>8</sup> These items are required for the carriage of mail, since even all-cargo operators must pay for them.



without resorting to reviewing BTS background descriptions of the data required. On balance, we tentatively find that the revised F-2 would be more accurate.

**Reporting Burden:**

The costs of this proposed reporting are the expenses incurred for making the necessary changes to air carrier information gathering systems for the approximately 30 small certificated carriers in Alaska. The Department believes that the costs are minor, because all the information requested should be readily available to the reporting air carrier. Moreover, the Department has supplied software to carriers for T-100 reporting, and is available for assistance to the carriers. However, we request carriers to supply detailed estimates of their projected costs.

The Department is required to obtain OMB approval to determine that any reporting it requires carriers to submit be not unduly burdensome for meeting the Department's required purposes. We have discussed above the Department's need for T-100 information and for revised costing information on Schedule F-2. Several carriers have reviewed them and report, overall, no significant burden. In addition, three carriers, Yute, Lynden Air Cargo, and Alaska Central Express, have begun to use the T-100 diskettes supplied by the Department to submit their monthly traffic data. These carriers informally report that the T-100 was easy to learn and use. Specifically, one carrier noted that as with any automated system, the first two months required extra effort, but that now it requires less time to prepare their reports which are less susceptible to mistakes and more easily correctable for mistakes. Another carrier reports that it uses a tie in between its own computerized internal reports and the T-100 diskette to submit the data. The diskettes were designed by BTS with ease of use in mind. Essentially, the diskettes take the information input by the carriers and then internally tabulate and summarize the input data. As such the diskette is a step toward both being easier to use, less susceptible to misunderstanding, and providing additional necessary data. BTS reports that carriers outside Alaska make significantly fewer mistakes using the T-100 diskettes, since the diskette compiles the summaries itself. Once the transition is complete, the carriers will no longer have to submit schedules A-1, E-1, or T-1. On balance, we believe the T-100 will impose less reporting burden on the carriers. As part of our experiment in revised reporting, we ask that the carriers supply specific estimates of their hourly burden. We remind the carriers that should the revised reporting be adopted, they would no longer be required to report Schedules A-1, E-1, or T-1.

**Revised Schedule F-2**

The revised Schedule F-2 should create no additional recurrent reporting burden, although there will be a minimum reprogramming burden to reclassify some expense items. In the end, it should be easier for carriers to comply with the reporting instructions and submit accurate data for ratemaking computation.

**ACCORDINGLY,**

1. We direct all interested persons to show cause within 20 days of the service date of this order why we should not, on a temporary experimental basis: <sup>9</sup>
  - a. Require the bush carriers carrying intra-Alaska mail to report monthly T-100 information on the diskettes that have been supplied them; and
  - b. Require the bush carrier carrying intra-Alaska mail to report revised schedule F-2 information as outlined in Appendix A;
  - c. Require the bush carriers to continue reporting the current Form 298-C until we can determine that they are reliably reporting the T-100 information;
2. We direct all parties to show cause why we should not maintain the current bush mail rate until the review is complete, except for quarterly changes in the fuel element;
3. This docket will remain open until further order of the Department; and

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<sup>9</sup> The original submission is to be unbound and without tabs on 8 1/2" x 11" white paper using dark ink (not green) to facilitate use of the Department's docket imaging system. In the alternative, filers are encouraged to use the electronic submission capability available through the Dockets/DMS Internet site (<http://dms.dot.gov>) by following the instructions on the web site.

4. We shall serve this order upon parties on the Service List for this Docket.

By:

**Susan McDermott**  
Deputy Assistant Secretary for Aviation  
And International Affairs

(SEAL)

An electronic version of this document will be made available on the World Wide Web  
at <http://dms.dot.gov/general/orders/aviation.html>

Appendix A

Revised Schedule F-2

Direct Operating Costs by Aircraft Type  
Pilot and Co-Pilot  
Aircraft Fuel and Oil  
Hull Insurance  
Third Party Liab. Insurance  
Other Liability Insurance  
Flight Maintenance 1/  
Depreciation and Lease  
Total Direct Expense

Indirect Operating Costs  
Flight Attendant  
Traffic Related  
Departure (Station) Related  
Capacity Related  
Total Indirects

Total Directs and Indirects  
Transport Related Expense  
Total Operating Expense

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Fuel Issued

Current Schedule F-2

Direct Operating Costs by Aircraft Type  
Pilot and Co-pilot  
Aircraft Fuel and Oil  
Other  
  
Total Flying Operations  
Maintenance  
Depreciation and Lease  
Total Direct Expense

Indirect Operating Costs  
Flight Attendant  
Traffic Related  
Departure (Station) Related  
Capacity Related  
Total Indirects

Total Operating Expense

Block Hours by Aircraft Type

Departures by Aircraft Type

Fuel Issued

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1/ The revision clarifies that this line item is for flight maintenance, as is currently the case.

2/ It is proposed that these traffic statistics would be reported on the T-100.